



Press Release
ARIES COLORCHEM PRIVATE LIMITED
January 30, 2024
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	ACUITE BBB+ Stable Downgraded	-
Bank Loan Ratings	5.00	-	ACUITE A2 Downgraded
Total Outstanding Quantum (Rs. Cr)	45.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**Acuite BBB+**' (read **Acuite triple B plus**) from '**Acuite A-**' (read as **ACUITE A minus**) and short-term rating to '**Acuite A2**' (read as **Acuite A two**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.45.00 crore bank facilities of Aries Colorchem Private Limited (ACPL). The outlook is '**Stable**'.

Rationale for rating downgrade

The rating downgrade reflects the moderating trend recorded in AG's operating performance marked by decline in operating income and profitability margins. The operating income declined by ~9% in FY2023 to Rs.271.38 Cr from Rs.298.75 Cr in FY2022. In 9MFY2024, AG has achieved operating income of ~ Rs.172 Cr. As learned from the management the moderation is led by weak demand levels translating into lower volumes and lower price realisations and the similar trend is expected to continue over the near to medium term. Similarly, the operating margins declined to 10.42% in FY2023 against 13.64% in FY2022 and 17.24% in FY2021.

The rating is further constrained on account of intensive nature of working capital operations with high GCA days of 187 days in FY2023, stiff competition faced through other players and regulatory risk.

The rating is however supported by strong financial risk profile of the group marked by strong net worth, low gearing levels of 0.40 times as of 31st March 2023 and comfortable debt protection metrics.

Going ahead, AG's ability to restrict significant deterioration in operating income, profitability and working capital operations while maintaining its strong financial risk profile and adequate liquidity will remain key rating monitorable.

About Company

ACPL was incorporated in 2009 by Mr. Kantilal Ishvarlal Patel. ACPL is engaged in manufacturing of dyes and dye intermediates. The manufacturing unit is located at Dahej SEZ in Bharuch (Gujarat). The company derives revenue majorly through exports to Italy, China, Spain, Argentina and others.

About the Group

Gujarat based Aries Group (AG) constitutes of Aries Colorchem Private Limited (ACPL) incorporated in 2009, Aries Organics Private Limited (AOPL) incorporated in 1995 and Aries Dye Chem Industries (ADCI) incorporated in 1980. Aries group is engaged in manufacturing of

synthetic organic dyes and dye intermediates. AG mainly exports to manufacturers and traders of textile and leather industries. The group is promoted by Mr. Kantilal Ishvarlal Patel.

Unsupported Rating
Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Aries Colorchem Private Limited (ACPL), Aries Organics Private Limited (AOPL) and Aries Dye Chem Industries (ADCI) together referred to as 'Aries Group' (AG). The consolidation is in view of the common ownership, similar business models of three companies.

Key Rating Drivers

Strengths

Experienced management and improving business risk profile

AG is being managed by Mr. Kantilal Ishvarlal Patel, who has extensive experience of more than two decades in the Dye business. Mr. Kantilal Ishvarlal Patel is well supported by second line of generation, Mr. Arish Kantilal Patel. The extensive experience of the promoters has helped AG to establish healthy relations with reputed clientele in international market as well as in local market. Acuité believes that AG's long operational track record is expected to support in improvement of the business risk profile over the medium term.

Strong financial risk profile

AG's financial risk profile is strong, marked by strong net worth, low gearing levels and healthy debt protection metrics. The net worth of AG stood at Rs. 158.38 Cr. as on March 31, 2023 against Rs.156.78 Cr as on March 31, 2022. AG has been following a conservative financial policy, the same is reflected through its low gearing level of 0.40 times as on March 31, 2023 against 0.59 times as on March 31, 2022. The gearing level improved marginally due decrease in short term debt. Further, the total outside liabilities to tangible net worth (TOL/TNW) level stands improved at 0.53 times as on March 31, 2023 against 0.83 times as on March 31, 2022. The total debt of Rs.63.82 Cr. as on March 31, 2023 comprises of unsecured loans from promoters to the tune of Rs.53.58 crore, and working capital borrowings to the tune of Rs.10.15 Cr and long term loans of Rs.0.08 Cr. The debt protection metrics are healthy marked by improved Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) which stood at 12.59 times and 11.05 times for FY2023 against 10.26 times and 4.86 times for FY2022, respectively. NCA/TD stood at 0.37 times in FY2023 as against 0.36 times in FY2022.

Acuite believes that the financial risk profile will remain strong over the medium term, in absence of no major debt funded capital expenditure.

Weaknesses

Working capital intensive operations

The operations of AG are working capital intensive marked by improved albeit high GCA days of 187 days in FY2023 as compared to 217 days in FY2022. The GCA days are mainly dominated by debtor days and inventory days of 86 days and 70 days in FY2023 against 110 days and 84 days for FY2022 respectively. The debtor's days are high due to extended credit period being offered to the customers. Further, the group majorly works on cash basis and does not avail longer credit period from its suppliers. The creditors days stood at 30 days in FY2023 against 57 days in FY2022.

Acuite believes that the efficient working capital management will be crucial to the AG in order to maintain a stable credit profile.

Intense competition leading to vulnerability in pricing along with regulatory risk

The group is exposed to intense competition in the industry marked by presence of large number of players. Intense competition limits the pricing flexibility and bargaining power of mid-sized players such as AG. Furthermore, growth of the dyestuff industry is largely dependent

on the end user industries such as textile, Chemicals, leather and paper. AG is regulated by the Gujarat Pollution Control Board with regulations regarding manufacture of products such as acid dyes, reactive dyes and dye intermediates and disposal of waste that are hazardous to the environment. Any adverse change in the regulations could affect the AG's business risk profile consequently affecting its credit risk profile.

Acuité believes AG's ability to mitigate such risk and avoid any further deterioration in their operating revenues and profitability margins will remain a key rating monitorable.

Rating Sensitivities

Significant and sustained growth in operating revenues while maintaining the profitability. Stretched working capital cycle and deterioration in liquidity position.

Liquidity Position Adequate

AG has strong liquidity marked by healthy net cash accruals generation as compared to maturing debt obligations. The group generated cash accruals of Rs.23.80 Cr during FY2023 against debt repayment obligation of Rs.0.05 Cr during the same period. The cash accruals of the group are estimated to remain at around Rs. 15.16-17.88 crore during FY2023-25, while its repayment obligations are expected to remain nominal to nil during the same period. The working capital operations of the group are intensive in nature marked by gross current asset (GCA) days of 187 days in FY2023. The cash credit limit remains utilised at ~40 percent during the last six months ended December 2023. The group maintains unencumbered cash and bank balances of Rs.7.80 Cr as on March 31, 2023. The current ratio stands healthy at 4.94 times as on March 31, 2023.

Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of moderate cash accruals generation against nominal repayment obligations.

Outlook:Stable

Acuité believes that the outlook on AG will remain 'Stable' over the medium term on account of the experienced management and its strong financial risk profile. The outlook may be revised to 'Positive' in case of sufficiently higher than expected growth in accruals and a further strengthening in business risk profile. The outlook may be revised to 'Negative' in case the group records significant deterioration in the operating revenues and profitability and further elongation in working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	271.38	298.75
PAT	Rs. Cr.	14.66	23.89
PAT Margin	(%)	5.40	8.00
Total Debt/Tangible Net Worth	Times	0.40	0.59
PBDIT/Interest	Times	12.59	10.26

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Nov 2022	Packing Credit	Long Term	31.90	ACUITE A- Stable (Reaffirmed)
	Proposed long term bank facility	Long Term	7.37	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	0.73	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
04 Aug 2021	Proposed Bank Facility	Long Term	5.37	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Withdrawn)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	10.63	ACUITE A- Stable (Reaffirmed)
	Packing Credit	Long Term	24.00	ACUITE A- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A2 Downgraded
State Bank of India	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	31.90	ACUITE BBB+ Stable Downgraded
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	7.37	ACUITE BBB+ Stable Downgraded
State Bank of India	Not avl. / Not appl.	Term Loan	25 Oct 2019	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.73	ACUITE BBB+ Stable Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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